Registre de Commerce et des Sociétés
B22232 - L140093064
déposé le 05/06/2014

M E N T I O N

Nom de la société : **ESPIRITO SANTO FINANCIAL GROUP S.A.**

Siège social : **22/24, Boulevard Royal, L-2449 Luxembourg**

N° du Registre de Commerce : **B 22 232**

N° CDO : **521**

Les comptes annuels au: **31.12.2013**

ont été déposés au Registre de Commerce et des Sociétés.

Pour mention aux fins de publication au Mémorial, Recueil Spécial des Sociétés et Associations.

Luxembourg, le 30 mai 2014.

SG AUDIT SARL

Registre de Commerce et des Sociétés
B22232 - L140093064
enregistré et déposé le 05/06/2014

ESPÍRITO SANTO FINANCIAL GROUP S.A.

Annual accounts
as at 31 December 2013
and report of the Réviseur
d'Entreprises agréé thereon

22-24 Boulevard Royal
L-2449 Luxembourg

RCS: Luxembourg B22.232

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To the Shareholders of
Espírito Santo Financial Group S.A.
22/24 boulevard Royal
L-2449 Luxembourg

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the annual accounts

We have audited the accompanying annual accounts of Espírito Santo Financial Group S.A., which comprise the balance sheet as at 31 December 2013 and the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts, and for such internal control as the Board of Directors determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

Responsibility of the Réviseur d'Entreprises agréé

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the judgement of the Réviseur d'Entreprises agréé, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG

Opinion

In our opinion, the annual accounts give a true and fair view of the financial position of Espírito Santo Financial Group S.A. as of 31 December 2013, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts.

Emphasis of Matter

Without qualifying our opinion included in the previous paragraph, we draw attention to Note 15 and Note 23 of the annual accounts, which describe the euro 700 million provision in relation with the subscription by ESFG customers of debt instruments issued by Espírito Santo International S.A. ('ESI'). The Board of Directors of ESFG believes that the reimbursement of the debt instruments issued by ESI will be possible through implementation of the deleverage program, the support of ESI shareholders, its capacity to obtain or renew credit lines in the financial markets and, additionally, through the support from ESFG.

Report on other legal and regulatory requirements

The management report, which is the responsibility of the Board of Directors, is consistent with the annual accounts. The accompanying Corporate Governance Statement on pages 3 to 13, which is the responsibility of the Board of Directors, is consistent with the annual accounts and includes the information required by the law.

Luxembourg, 28 April 2014

KPMG Luxembourg S.à r.l.
Cabinet de révision agréé

F. Rouault

ESPÍRITO SANTO FINANCIAL GROUP S.A.

BALANCE SHEET AS AT 31 DECEMBER

	Notes	2013	2012
		Euro	Euro
ASSETS			
FORMATION EXPENSES	3	8,080,836	11,169,600
FIXED ASSETS			
Tangible fixed assets			
Other fixtures and fittings, tools and equipment	4	484,192	616,091
Financial fixed assets			
Shares in affiliated undertakings	5	2,032,327,029	995,112,161
Amounts owed by affiliated undertakings	6	722,230,878	1,702,178,356
Loans and claims held as fixed assets	7	15,300,862	15,693,687
CURRENT ASSETS			
Debtors			
Amounts owed by affiliated undertakings			
Becoming due and payable within one year	8	207,693,906	201,288,301
Other receivables			
Becoming due and payable within one year		126,316	166,581
Transferable securities			
Shares in affiliated undertakings	9	4,313,743	1,074,319
Other transferable securities	10	78,625	2,203,217
Cash at bank and cash in hand		10,072,923	1,623,501
DEFERRED CHARGES	11	6,265,525	5,852,555
		3,006,974,835	2,936,978,369

The accompanying notes form an integral part of these annual accounts.

ESPÍRITO SANTO FINANCIAL GROUP S.A.

BALANCE SHEET AS AT 31 DECEMBER

	Notes	2013	2012
		Euro	Euro
LIABILITIES			
CAPITAL AND RESERVES		**1,513,537,279**	**2,203,853,442**
Subscribed capital	12	207,075,338	207,075,338
Share premium and similar premiums	13	905,293,916	905,293,916
Reserves			
Legal reserve	13	43,200,000	43,200,000
Other reserves	13	831,965,011	831,965,011
Result brought forward	13	216,319,177	189,289,384
Result for the financial year		(690,316,163)	27,029,793
SUBORDINATED DEBTS	14	355,795,361	355,795,361
PROVISIONS			
Provision for taxation		2,815,016	2,829,161
Other provision	15	700,000,000	—
NON-SUBORDINATED DEBTS			
Bonds			
Convertible bonds			
Becoming due and payable after more than one year	16	377,373,156	313,338,227
Amounts owed to affiliated undertakings			
Becoming due and payable after more than one year	17	55,987,794	60,645,887
Other creditors			
Becoming due and payable within one year		1,106,548	246,706
Becoming due and payable after more than one year		77,545	77,586
DEFERRED INCOME		282,136	191,999
		3,006,974,835	2,936,978,369

The accompanying notes form an integral part of these annual accounts.

PROFIT AND LOSS ACCOUNT FOR THE YEARS ENDED 31 DECEMBER

	Notes	2013	2012
		Euro	Euro
CHARGES			
Other external charges		13,620,718	12,473,045
Staff costs		184,059	—
Value adjustments in respect of formation expenses and tangible fixed assets	3,4	3,220,663	2,747,829
Value adjustments and fair value adjustments on financial fixed assets	5	14,724	1,369,031
Value adjustments and fair value adjustments on financial current assets. Losses on disposal of transferable securities	18	4,592	—
Interest payable and other financial charges		54,932,370	52,662,073
concerning affiliated undertakings		*5,200,953*	*5,818,113*
other interest payable and charges		*49,731,417*	*46,843,960*
Extraordinary expenses	15	700,000,000	—
Income tax	27	3,697	1,575
Other taxes not included under the previous caption		1,133,574	3,693,305
		773,114,397	72,946,858
Result for the financial year		(690,316,163)	27,029,793
		82,798,234	99,976,651
INCOME			
Other operating income		57,306	—
Income from financial fixed assets	19	61,340,557	83,353,257
Income from financial current assets	20	1,020,948	2,837,432
Other interest receivable and other financial income		4,767,414	3,533,743
derived from affiliated undertakings		*4,767,414*	*3,533,743*
Extraordinary income	21	15,612,009	10,252,219
		82,798,234	99,976,651

The accompanying notes form an integral part of these annual accounts.

ESPÍRITO SANTO FINANCIAL GROUP S.A.

NOTES TO THE ANNUAL ACCOUNTS AS OF 31 DECEMBER 2013

NOTE 1 - ACTIVITY

Espírito Santo Financial Group S.A. ("the Company" or "ESFG") is a limited liability company (société anonyme) incorporated under Luxembourg law on 28 November 1984 for an unlimited duration and is the holding company of the banking and financial activities of the Espírito Santo Group. Most of the non-financial interests of the group are held by Rio Forte Investments S.A., a limited liability company headquartered in Luxembourg. The Company and Rio Forte Investments S.A., are subsidiaries of E.S. International S.A. (ESI), a company headquartered in Luxembourg.

In December 2013, Espírito Santo Irmãos S.A., a fully-owned subsidiary (direct and indirect) of Rio Forte Investments S.A., acquired from ESI its participation in ESFG. Consequently, Rio Forte Investments S.A., became the indirect holder of the interest of the Espírito Santo Group in ESFG. The terms and conditions of the agreement established between ES Irmãos and ESI were met only during the month of January 2014, therefore control over ESFG was obtained by Rioforte only in 2014. As a result, from 1 January 2014, ESFG will be fully consolidated by Rio Forte. The ultimate parent company of ESFG remains Espirito Santo Control S.A. (ESC), a company headquartered in Luxembourg, direct parent company of ESI. There are no audited consolidated financial statements at the level of ESI or ESC. Consolidated financial statements of ESFG are available at the Company's registered office at 22-24, Boulevard Royal in Luxembourg. ESFG is listed on the Luxembourg, London and Lisbon Stock Exchanges.

The Company has extensive transactions and relationships with members of the Espírito Santo Group. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions with wholly unrelated parties.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting convention and basis of presentation

The annual accounts are prepared, for all periods presented, in conformity with Luxembourg legal and regulatory requirements, under the historical cost convention, and in the format applicable to Luxembourg commercial companies.

The preparation of the annual accounts requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Income and expenses recognition

Income and expenses are generally recognised on an accrual basis. Dividends from investments are accounted for as income when received.

Formation expenses

Expenses arising on capital increases are capitalised and amortised over a five-year period.

Costs on debt securities issued

Costs arising in respect of debt securities issued are capitalised and amortised over the life of the securities.

Discount on subordinated debt

Discount on subordinated debt is amortised over the life of the debt.

Tangible assets

Tangible assets comprise leasehold improvements, furniture and equipment which are stated at cost, less accumulated depreciation. The annual charge for depreciation is computed on a straight-line basis over the estimated useful lives of the assets being considered as five to seven years.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial fixed assets

Financial fixed assets are stated at acquisition cost. Provisions for write down are made when an impairment loss is identified and are booked under the caption "Value adjustments and fair value adjustments on financial fixed assets". Reversals of provisions are booked under the caption "Income from financial fixed assets".

Investments in transferable securities

Investments in transferable securities are stated at the lower of cost or market value. Unrealised losses are recognised through the profit and loss account under the caption "Value adjustments and fair value adjustments on financial current assets".

Derivative financial instruments

Derivative financial instruments comprise forward currency contracts and interest rate swap contracts which are recorded off balance sheet. Forward currency contracts and interest rate swap contracts are carried off balance sheet at their notional amount.

Unrealised gains are recognised to the extent of unrealised losses. A provision is created for any excess losses; any gains are deferred.

Provision

Provisions are made for all foreseeable liabilities and potential losses which have arisen in the course of the current or previous financial year.

Foreign currencies

The books of accounts are maintained in Euro. Transactions in foreign currencies during the period are recorded at exchange rates ruling at the time the transactions take place. All assets and liabilities expressed in currencies other than Euro are translated at exchange rates ruling at the end of the period, except for investments in affiliated undertakings which are kept at historical exchange rates. Any exchange gains or losses are recognised in the profit and loss account.

Spot positions hedged by forward transactions as well as forward positions hedged by spot deals are considered to be neutral in relation to currency fluctuations. Any valuation difference which may arise is neutralised so that the results for the period are not affected.

Provision is made for unrealised losses on forward transactions which do not represent the hedging of spot positions. Unrealised gains are not accounted for.

NOTE 3 – FORMATION EXPENSES

This balance relates to the unamortised costs in respect of capital increases, as follows:

	2013 Euro	2012 Euro
Cost at the beginning of the year	24,505,932	16,003,309
Additions for the year	—	8,502,623
Cost at the end of the year	24,505,932	24,505,932
Amortisation at the beginning of the year	(13,336,332)	(10,720,402)
Amortisation of the year	(3,088,764)	(2,615,930)
Amortisation at the end of the year	(16,425,096)	(13,336,332)
Unamortised cost at the end of the year	8,080,836	11,169,600

The additions for 2012 included the costs in relation to the capital increase (see Note 12).

NOTE 4 – TANGIBLE ASSETS

	2013 Euro	2012 Euro
Cost at the beginning of the year	1,004,703	881,663
Additions for the year	—	123,040
Cost at the end of the year	1,004,703	1,004,703
Amortisation at the beginning of the year	(388,612)	(256,713)
Amortisation for the year	(131,899)	(131,899)
Amortisation at the end of the year	(520,511)	(388,612)
Net balance at the end of the year	484,192	616,091

NOTE 5 – FINANCIAL FIXED ASSETS - SHARES IN AFFILIATED UNDERTAKINGS

Company	Location	2013	2012	Percentage of capital held directly 2013	2012
		Euro	Euro		
Espírito Santo Financial (Portugal) SGPS, S.A.	Portugal	1,578,739,133	566,517,693	100,0	100,0
Partran SGPS, S.A.	Portugal	174,832,569	174,832,569	55,0	55,0
ESFIL – Espírito Santo Financière S.A.	Luxembourg	127,639,112	127,639,112	100,0	100,0
Banco Espírito Santo S.A.	Portugal	74,587,358	52,559,402	1,26	0,71
Espírito Santo Saúde SGPS, S.A.	Portugal	48,293,600	48,293,600	24,9	24,9
ES Bank (Panama) S.A.	Panama	26,017,036	26,017,036	100,0	100,0
ES Bankers (Dubai) Ltd.	Dubai	19,791,674	19,791,674	95,0	95,0
Banco Electrónico de Serviço Total, S.A.	Portugal	4,235,294	4,235,294	9,0	9,0
Fundo de Capital de Risco - ES Ventures II	Portugal	—	3,406,885	—	5,7
SCA Mandel Partners	France	360,000	360,000	9,0	9,0
Banque Privée Espírito Santo S.A.	Switzerland	—	154,764	—	0,7
ESFG International Ltd.	Cayman Islands	132	145	100,0	100,0
ES Consultancy (Singapore) Ltd.	Singapore	—	1	—	100,0
		2,054,495,908	1,023,808,175		
Value adjustments		(22,168,879)	(28,696,014)		
		2,032,327,029	995,112,161		

During 2013, the following transactions took place:

- Conversion of Euro 1,012,221,440 of loans to Espirito Santo Financial (Portugal) SGPS S.A. into investment (supplementary capital) (see Note 6);
- Purchase of 22,458,331 shares of BES from ESFIL-Espirito Santo Financière for an amount of Euro 22,027,956;
- Sale of Fundo de Capital de Risco - ES Ventures II for an amount of Euro 3,988,063, generating a net gain of Euro 1,495,715 (see Note 19) after the reversal of the cumulated impairment;
- Sale of Banque Privée Espirito Santo S.A. for an amount of Euro 751,158 (CHF 920,770), generating a gain of Euro 596,395 (see Note 19);
- Repurchase by ESFG International Ltd of 13 shares of its outstanding ordinary shares, generating a gain of Euro 4,849,987 included in the caption "Extraordinary income" (see Note 21);
- Striking off of ES Consultancy (Singapore) Ltd..

During 2012, the following transactions took place:

- Reclassification of the investment in Fundo de Capital de Risco – ES Venture II from "Transferable securities – Shares in affiliated undertakings" to "Financial fixed assets – Shares in affiliated undertakings" (see Note 10) in order to reflect the intention of the Company;
- Cancellation of the subscription of 5,500,000 shares (Euro 27,500,000) in capital increase of Partran in 2010, following the reduction of its capital;
- Sale of 9,180,216 shares of Banco Espírito Santo S.A. for an amount of Euro 10,974,941, generating a loss of Euro 1,418,351, including the reversal of cumulated value adjustment for Euro 53,368,836;
- Repurchase by ESFG International Ltd of 755 shares of its outstanding ordinary shares, generating a gain of Euro 16,449,245 included in the caption "Extraordinary income" (see Note 21).

As at 31 December 2013, the value adjustments relate to the investments in:

- Banco Espirito Santo S.A. for Euro 21,808,879 (31 December 2012: Euro 27,195,953);
- SCA Mandel Partners for Euro 360,000 (31 December 2012: Euro 345,276).

NOTE 5 – FINANCIAL FIXED ASSETS - SHARES IN AFFILIATED UNDERTAKINGS (cont'd)

Following the sale of Fundo de Capital de Risco in 2013, the cumulated provision of Euro 1,154,785 as at 31 December 2012 was reversed as part of the result on sale.

The total shareholders' equity and the net income of the subsidiaries in which the Company owns more than 20% at 31 December 2013 and 2012 are as follows:

		Shareholders' equity Eur'000 (audited)	Net Income Eur'000 (audited)
Espírito Santo Financial (Portugal) SGPS, S.A.			
	31/12/2013	1,519,238	(1,809)
	31/12/2012	523,625	15,641
ES Saude SGPS, S.A.			
	31/12/2013	140,439	14,532
	31/12/2012	128,431	(2,631)
ESFIL - Espírito Santo Financière S.A.			
	31/12/2013	190,006	36,719
	31/12/2012	184,047	25,931
Partran SGPS, S.A.			
	31/12/2013	381,848	9,843
	31/12/2012	382,018	40,055
ES Bank (Panama) S.A.			
	31/12/2013	59,827	13,905
	31/12/2012	56,266	16,514
ES Bankers (Dubai) Ltd.			
	31/12/2013	28,815	1,781
	31/12/2012	30,985	5,643
ESFG International Ltd.			
	31/12/2013	54,792 (*)	3,480
	31/12/2012	59,486 (*)	4,369

(*) Include Euro 52,950,000 (2012: Euro 57,800,000) Non-cumulative Guaranteed Step-Up Preferred Securities which are not owned by ESFG.

NOTE 6 – FINANCIAL FIXED ASSETS - AMOUNTS OWED BY AFFILIATED UNDERTAKINGS

	2013 Euro	2012 Euro
Espírito Santo Financial (Portugal) SGPS, S.A.	353,954,661	1,349,268,601
Partran SGPS, S.A.	133,810,368	133,810,368
ESFIL - Espírito Santo Financière S.A.	234,465,849	219,099,387
	722,230,878	1,702,178,356

NOTE 6 – FINANCIAL FIXED ASSETS - AMOUNTS OWED BY AFFILIATED UNDERTAKINGS (cont'd)

The receivable from Espírito Santo Financial (Portugal) SGPS, S.A. represents the following revolving loans:

Date of transaction	Description	2013 Euro	2012 Euro
2006	Granted	149,494,440	149,494,440
2012	Repaid	(3,622,539)	(3,622,539)
2013	Converted into supplementary capital	(112,151,440)	—
		33,720,461	145,871,901
2007	Granted	40,425,000	40,425,000
2013	Converted into supplementary capital	(40,425,000)	—
		—	40,425,000
2008	Granted	233,125,000	233,125,000
2013	Converted into supplementary capital	(233,125,000)	—
		—	233,125,000
2009	Granted	338,920,000	338,920,000
2013	Converted into supplementary capital	(338,920,000)	—
		—	338,920,000
2010	Granted	155,650,000	155,650,000
2013	Converted into supplementary capital	(155,650,000)	—
		—	155,650,000
2011	Granted	131,950,000	131,950,000
2013	Converted into supplementary capital	(131,950,000)	—
		—	131,950,000
2012	Granted	303,326,700	303,326,700
2013	Repaid	(10,000,000)	—
		293,326,700	303,326,700
2013	Granted	26,907,500	—
		26,907,500	—
Total		353,954,661	1,349,268,601

The loans bear no interest and will be reimbursed based either on a notice given by the lender or on mutual agreement between the two parties. In 2013, an amount of Euro 1,012,221,440 has been converted into investment (supplementary capital) (see Note 5).

NOTE 6 – FINANCIAL FIXED ASSETS - AMOUNTS OWED BY AFFILIATED UNDERTAKINGS (cont'd)

The receivable from Partran SGPS, S.A. represents the following revolving loans:

Date of transaction	Description	2013 Euro	2012 Euro
2005	Granted	1,606,182	1,606,182
2006	Granted	23,553,924	23,553,924
2007	Granted	44,800,262	44,800,262
2008	Granted	12,000,000	12,000,000
2009	Granted	30,000,000	30,000,000
2010	Granted	21,750,000	21,750,000
2011	Granted	100,000	100,000
Total		133,810,368	133,810,368

The loans bear no interest and will be reimbursed based either on a notice given by the lender or on mutual agreement between the two parties.

The balance due from ESFIL - Espírito Santo Financière S.A. represents the following revolving loans:

Date of transaction	Description	CHF	2013 Euro	2012 Euro
1993	Granted	69,040,000	56,243,437	57,175,983
2007	Granted		31,000,000	31,000,000
2009	Repaid		(6,000,000)	(6,000,000)
			25,000,000	25,000,000
2009	Granted		20,000,000	20,000,000
2011	Granted		53,800,000	53,800,000
2012	Granted		229,500,000	229,500,000
2012	Repaid		(166,500,000)	(166,500,000)
2013	Granted		170,300,000	—
2013	Repaid		(154,000,000)	—
			133,100,000	116,800,000
	Accrued interest		122,412	123,404
Total			234,465,849	219,099,387

NOTE 6 – FINANCIAL FIXED ASSETS - AMOUNTS OWED BY AFFILIATED UNDERTAKINGS (cont'd)

The loans bear interest and will be reimbursed based either on a notice given by the lender or on mutual agreement between the two parties.

NOTE 7 – FINANCIAL FIXED ASSETS – LOANS AND CLAIMS HELD AS FIXED ASSETS

Loans and claims held as fixed assets amount Euro 15,300,862 as at 31 December 2013 (2012: Euro 15,693,687) and relate to Life-Insurance policies in favor of some Directors of the Company.

NOTE 8 – DEBTORS – AMOUNTS OWED BY AFFILIATED UNDERTAKINGS

Debtors' balances comprise essentially short term advances to and receivables from affiliated undertakings and related entities becoming due and payable within one year.

The balance owed by affiliated undertakings is analysed as follows:

	2013 Euro	2012 Euro
ESFIL – Espírito Santo Financière S.A.	206,570,928	200,174,774
Banco Espírito Santo S.A.	782,951	895,440
BES Investimento S.A.	154,322	186,507
Other affiliated undertakings	185,705	31,580
	207,693,906	201,288,301

NOTE 9 – TRANSFERABLE SECURITIES – SHARES IN AFFILIATED UNDERTAKINGS

	2013 Euro	2012 Euro
Cost	4,313,743	1,074,319
Unrealised losses	—	—
Book value	4,313,743	1,074,319
Fair value	4,926,918	1,336,319

This balance includes exclusively BES shares held for trading purposes. The unrealised gains of Euro 613,175 (2012: Euro 262,000) were not recognised in the profit and loss account. Trading operations generated a net gain of Euro 829,130 in 2013 (2012: gain of Euro 1,359,064) (See Note 20).

NOTE 10 – TRANSFERABLE SECURITIES - OTHER TRANSFERABLE SECURITIES

As at 31 December 2013 and 2012, the caption "Other transferable securities" is analysed as follows:

	2013			
	Euro	Euro	Euro	Euro
	Cost	Unrealised losses	Book value	Fair value
Equity securities	2,055,799	(1,977,174)	78,625	78,625
	2,055,799	(1,977,174)	78,625	78,625

	2012			
	Euro	Euro	Euro	Euro
	Cost	Unrealised losses	Book value	Fair value
Equity securities	2,055,799	(1,972,582)	83,217	83,217
Bonds	2,120,000	—	2,120,000	2,120,000
	4,175,799	(1,972,582)	2,203,217	2,203,217

During 2012, the investments in Fundo de Capital de Risco – ES Venture II were transferred to "Financial fixed assets – Shares in affiliated undertakings" (see Note 5). The caption "Bonds" of 2012 included the repurchase of Euro 1,240,000 of Fixed Rate Step-up Notes Euro 181,350,000, due 2025 (see Note 16). These bonds were sold in 2013, generating a gain of Euro 160,000 (see Note 20).

NOTE 11 – DEFERRED CHARGES

This balance is analysed as follows:

	2013 Euro	2012 Euro
Unamortised costs in respect of debt securities	5,787,683	5,289,103
Unamortised discount in respect of subordinated debt	427,991	502,424
Prepayments and accrued income	49,851	61,028
	6,265,525	5,852,555

NOTE 11 – DEFERRED CHARGES (cont'd)

The unamortised costs in respect of debt securities are analysed as follows:

	2013 Euro	2012 Euro
Cost at the beginning of the year	8,089,387	8,089,387
Additions for the year	3,556,704	—
Write-off of the year	(4,155,675)	—
Cost at the end of the year	7,490,416	8,089,387
Amortisation at the beginning of the year	(2,800,284)	(2,268,870)
Amortisation of the year	(573,377)	(531,414)
Write-off of the year	1,670,928	—
Amortisation at the end of the year	(1,702,733)	(2,800,284)
Unamortised costs at the end of the year	5,787,683	5,289,103

During 2013, unamortised costs were written off for a net amount of Euro 2,484,747, following the repurchase of Euro 135,600,000 of the outstanding Euro 500,000,000 Fixed Rate Step-Up Notes due 2025 issued with 10,000 warrants (see Note 16).

The unamortised discount in respect of subordinated debt is analysed as follows:

	2013 Euro	2012 Euro
Discount at the beginning of the year	744,332	744,332
Discount at the end of the year	744,332	744,332
Amortisation at the beginning of the year	(241,908)	(167,475)
Amortisation of the year	(74,433)	(74,433)
Amortisation at the end of the year	(316,341)	(241,908)
Net unamortised discount at the end of the year	427,991	502,424

NOTE 12 – SUBSCRIBED CAPITAL

	2013	2012
	Euro	Euro
Ordinary shares		
Authorised:		
2,000,000,000 (31 December 2012 – 2,000,000,000) shares without par value	2,000,000,000	2,000,000,000
Subscribed, issued and fully paid:		
207,075,338 (31 December 2012: 207,075,338) shares without par value	207,075,338	207,075,338

On 26 April 2012, the Company proceeded to a capital increase of Euro 499,999,998 through the issuance of 102,040,816 new ordinary shares at a price of Euro 4.90. The share capital was increased from Euro 105,034,522 to Euro 207,075,338 and the share premium was increased by Euro 397,959,182.

NOTE 13 – SHARE PREMIUM ACCOUNT, RESERVES AND PROFIT BROUGHT FORWARD

			Other reserves		
	Share premium	Legal reserve	Non-distributable capital reserve	Free reserves	Profit brought forward
	Euro	Euro	Euro	Euro	Euro
31 December 2012	905,293,916	43,200,000	700,969,662	130,995,349	189,289,384
Prior year profit	—	—	—	—	27,029,793
31 December 2013	905,293,916	43,200,000	700,969,662	130,995,349	216,319,177

Under Luxembourg law, a minimum of 5% of the profit for the year must be transferred to a legal reserve until this reserve equals 10% of the issued share capital. The legal reserve is not available for distribution. The other reserves are available for distribution at the discretion of the shareholders.

The appropriation of the 2012 result was approved at the annual general meeting of shareholders on 26 April 2013.

NOTE 14 – SUBORDINATED DEBT (becoming due and payable after more than one year)

	2013	2012
	Euro	Euro
Subordinated Notes due 2019	351,100,000	351,100,000
Accrued interest	4,695,361	4,695,361
	355,795,361	355,795,361

NOTE 14 – SUBORDINATED DEBT (becoming due and payable after more than one year) (cont'd)

On 21 October 2009, the Company issued the Euro 400,000,000 Subordinated Notes. The Notes bear interest at the rate of 6.875% per annum, payable annually in arrear on 21 October and mature on 21 October 2019. During 2011, Euro 48,900,000 were cancelled and exchanged for Euro 39,786,000 of ESFG share capital. The outstanding balance as at 31 December 2013 is Euro 351,100,000 (2012: Euro 351,100,000).

NOTE 15 – OTHER PROVISION

Under the Group financial intermediation activity, Group customers subscribed, through Group network, debt instruments issued by Espírito Santo International, S.A. ('ESI') and its subsidiaries Espírito Santo Property S.A., Espírito Santo Industrial S.A. and Espírito Santo Irmãos S.A., in the amount of Euro 4,745 million, of which Euro 3,259 million were held, as at 31 December 2013, by private and retail customers and Euro 1,486 million were held, on the same date, by institutional customers. This situation is further explained in Note 23.

In 2013 ESI has prepared a reorganisation plan and a deleverage program in order to be able to rebalance its financial position and proceed with the reimbursement of its liabilities. The measures included in the referred reorganisation plan and deleverage program were integrated in a business plan and the cash flow projections of ESI for the 10-year period up to 2023 which were subject to analysis made under the review of the loan impairment losses accounted for by the Group, led by the Bank of Portugal, which occurred in the second half of 2013.

Considering the uncertainties associated with the ability to fully implement the internal reorganization plan and the deleverage program, the Board of Directors of ESFG approved an unconditional and irrevocable guarantee mechanism in favour of its subsidiaries (see Note 23) with the objective of covering the risk associated with the fact that ESI issued commercial paper and bonds to customers through the respective networks. Based on this decision, the Board of Directors approved the set-up of a provision amounting to Euro 700 million, recognised under Provisions in the annual accounts of ESFG as at 31 December 2013.

ESFG's Board of Directors believes, considering the information included in ESI business plan and cash flow projections for the 10-year period up to 2023, that the reimbursement of the debt instruments issued by ESI will be possible through implementation of the deleverage program, the support of ESI shareholders, its capacity to obtain or renew credit lines in the financial markets and, additionally, through the support from ESFG.

NOTE 16 – CONVERTIBLE BONDS (becoming due and payable after more than one year)

	2013 Euro	2012 Euro
Convertible Bonds due in 2025	130,416,000	130,416,000
Fixed Rate Step-Up Notes due 2025	45,750,000	181,350,000
Exchangeable Bonds due in 2018	200,000,000	—
	376,166,000	311,766,000
Accrued interest	1,207,156	1,572,227
	377,373,156	313,338,227

NOTE 16 – CONVERTIBLE BONDS (becoming due and payable after more than one year) (cont'd)

On 15 November 2005 the Company issued the Euro 500,000,000 Fixed Rate Step-Up Notes due 2025 with 10,000 warrants ("the Notes"). Each note bears interest at the rate of 3.55% until 15 November 2010 and 5.05% from then on. Each warrant entitles the holder to subscribe Euro 50,000 to acquire fully paid up shares of Euro 10.0 each of ESFG at an initial exercise price of Euro 24.50 per share. This exercise price was adjusted to Euro 21.24 in 2011. The rights under the warrants are exercisable from and including 26 December 2005 up to the close of business on 8 November 2025. Unless previously redeemed, or repurchased and cancelled, the Notes will be redeemed at their principal amount on 15 November 2025.

Following the conversion as well as the tender offer and exchange offer undertaken in 2011, the principal amount and the number of warrants outstanding as at 31 December 2012 were Euro 181,350,000 and 3,627 warrants respectively. During 2013, the Company repurchased Euro 135,600,000 of its outstanding Notes and Warrants, generating a gain of Euro 13,560,000 recorded as extraordinary income (see Note 21). The principal amount and the number of warrants remaining as at 31 December 2013 are amounted to Euro 45,750,000 and 915 warrants.

The Euro 130,416,000 Convertible Bonds due 2025 ("the Bonds") were issued on 19 December 2011, as a result of the Exchange Offer of the Euro 500,000,000 Fixed Rate Step-Up Notes described above. Each bond bears interest at the rate of 9.75% and entitles the holder to convert such Bond into new and/or existing fully paid ordinary shares in the capital of ESFG. The initial Conversion Price is Euro 17 per Ordinary share. Unless previously redeemed, or repurchased and cancelled, the Bonds will be redeemed at their principal amount on 19 December 2025.

On 2 December 2013, the Company issued the Euro 200,000,000 Exchangeable Bonds due 2018 ("the Bonds"). The Bonds will be exchangeable for the ordinary shares with no value of Banco Espirito Santo S.A. or a cash equivalent amount. The Bonds will be issued and redeemed at par in a denomination of Euro 100,000 per Bonds, with a maturity of 5 years, and have a coupon of 3.125% per annum, payable semi-annually in arrear. The initial exchange price of the Bonds has been set at Euro 1.3129. Under the terms of the Bonds, the Company will have the right to elect to settle any exchange entirely in BES Shares, cash or a combination of BES shares and cash.

The Notes and Bonds are listed on the Luxembourg stock exchange.

NOTE 17 – NON-SUBORDINATED DEBT – AMOUNTS OWED TO AFFILIATED UNDERTAKINGS (becoming due and payable after more than one year)

Amounts owed to affiliated companies (becoming due and payable after more than one year) relate to ESFG International Ltd.. The advance from ESFG International Ltd. is revolving and will be reimbursed based either on a notice given by the lender or on mutual agreement between the two parties. The interest charge for the year was Euro 3,491,907 (2012: Euro 4,390,542).

NOTE 18 – VALUE ADJUSTMENTS AND FAIR VALUE ADJUSTMENTS ON FINANCIAL CURRENT ASSETS. LOSSES ON DISPOSAL OF TRANSFERABLE SECURITIES

	2013	2012
	Euro	Euro
Value adjustments on financial current assets (Note 10)	4,592	—
	4,592	—

NOTE 19 – INCOME FROM FINANCIAL FIXED ASSETS

	2013 Euro	2012 Euro
Dividend income	44,785,275	67,946,145
Income from loans forming part of the fixed assets	8,842,637	7,846,301
Reversal of value adjustments on financial fixed assets	5,620,535	7,560,811
Gains on disposal of financial fixed assets	2,092,110	—
	61,340,557	83,353,257

The reversal of value adjustments on financial fixed assets in 2013 includes the revaluation on investments in Banco Espirito Santo S.A. of Euro 5,387,073 (2012: Euro 7,330,448) (see Note 5). The gains on sale of financial fixed assets relate to the sale of Fundo de Capital de Risco - ES Ventures II (Euro 1,495,715) and Banque Privée Espirito Santo S.A. (Euro 596,395) (see Note 5).

NOTE 20 – INCOME FROM FINANCIAL CURRENT ASSETS

	2013 Euro	2012 Euro
Gains on disposal of transferable securities	989,130	2,573,102
Dividend and interest income	31,818	264,330
	1,020,948	2,837,432

Gains on disposal of transferable securities include the gains of Euro 829,130 (2012: gains of Euro 1,359,064) on the sale of Banco Espirito Santo S.A. shares on the market (see Note 9) and the gains of Euro 160,000 resulting from the sale of Euro 1,240,000 of Fixed Rate Step-Up Notes Euro 181,350,000 (see Note 10).

NOTE 21 – EXTRAORDINARY INCOME

Net extraordinary income of 2013, amounting to Euro 15,612,009, resulted from:

- gain of Euro 13,560,000 on the repurchase of Euro 136,500,000 of the outstanding Euro 500,000,000 Fixed Rate Step Up due 2025 with 10,000 warrants (see Note 16)
- gain of Euro 4,849,987 on the repurchase by ESFG International Limited of 13 shares of its outstanding ordinary shares (see Note 5);
- loss of Euro 2,797,978 on surrender for no consideration of Euro 4,850,000 Preference shares of ESFG International Limited, further to the purchase by ESFG on the market of Euro 400,000,000 Series A Non-cumulative Guaranteed Step-up Preferred Securities issued by ESFG International Limited.

Net extraordinary income of 2012, amounting to Euro 10,252,219, resulted from:

- loss of Euro 6,197,026 on surrender for no consideration of Euro 16,450,000 Preference shares of ESFG International Limited, further to the purchase by ESFG on the market of Euro 400,000,000 Series A Non-cumulative Guaranteed Step-up Preferred Securities issued by ESFG International Limited;
- gain of Euro 16,449,245 on the repurchase by ESFG International Limited of 755 shares of its outstanding ordinary shares (see Note 5).

NOTE 22 – BOARD OF DIRECTORS REMUNERATION

During 2013 and 2012, the amounts paid to the Board of Directors were Euro 2,274,432 and Euro 2,165,029, respectively.

NOTE 23 - COMMITMENTS AND CONTINGENCIES

	2013 Euro	2012 Euro
Guarantees granted	1,164,001,220	1,308,691,627

This caption includes guarantees granted to:

- ESFG International Ltd in June 2007 to cover the payment of dividends and liquidation of the Non-cumulative Guaranteed Preference Shares for an amount of Euro 52,950,000 (2012: Euro 57,800,000) issued by ESFG International Ltd, Cayman Islands;
- Banque Espirito Santo et de la Vénétie S.A. for an amount of Euro 300,000,000 (2012: Euro 300,000,000) in relation with their lending to ES Bank (Panama) S.A. (2013: Nil, 2012: Euro 45,000,000);
- BIC International Bank Ltd. for an amount of Euro 220,000,000 (2012: Euro 220,000,000) in relation with their lending to ES Bank (Panama) S.A. (2013: Euro 183,000,000, 2012: Euro 135,000,000);
- ES Bank (Panama) S.A. for an amount of Euro 220,000,000 (2012: Euro 220,000,000) in relation with their lending to ESFIL - Espírito Santo Financière S.A. (2013: Nil, 2012: Nil).

In July 2009, ESFG and ESFIL – Espirito Santo Financière S.A. established a Euro-Commercial Paper Programme (ECP), under which each issuer may issue and have outstanding at any time Euro-Commercial Paper notes up to a maximum aggregate amount of Euro 1,000,000,000 or its equivalent in alternative currencies. Notes issued by ESFIL are guaranteed by ESFG. As at 31 December 2013, the total amount issued under this program was Euro 171,051,220 (2012: Euro 410,891,627).

In May 2011, ESFG and ESFIL – Espirito Santo Financière S.A. established a Euro Medium Term Note Programme, under which each issuer may issue and have outstanding at any time Euro Medium Term notes up to a maximum aggregate amount of Euro 2,000,000,000 or its equivalent in alternative currencies. Notes issued by ESFIL are guaranteed by ESFG. As at 31 December 2013, the total amount issued under this program was Euro 200,000,000 (2012: Euro 100,000,000).

In the scope of the activity of the Group ESFG ('the Group') regarding the management of customers funds and considering the risk profile of each customer, the Group offers a variety of investment solutions which include the direct subscription of debt instruments issued by several entities, namely entities included in ESFG consolidation scope and other related parties from the non-financial sector of Espírito Santo Group. In this context, the Group makes available to customers information on the risks associated with the subscription of such instruments as it is required by the applicable regulations. These debt instruments, which are held under custody, are accounted as an off-balance sheet item under Securities and other items for the safekeeping on behalf of clients.

Under this activity, Group customers subscribed debt instruments issued by Espírito Santo International S.A. ('ESI') and its subsidiaries Espírito Santo Property S.A., Espírito Santo Industrial S.A. and Espírito Santo Irmãos S.A., in the amount of Euro 4,745 million, of which Euro 3,259 million were held, as at 31 December 2013, by private and retail customers and Euro 1,486 million were held, on the same date, by institutional customers (see Note 15).

NOTE 23 - COMMITMENTS AND CONTINGENCIES (cont'd)

Additionally the Group retail and private customers subscribed debt instruments issued by Rio Forte Investments S.A., Espírito Santo Saúde S.G.P.S., S.A., ESPART - Espirito Santo Participações Financeiras S.G.P.S., S.A., Quinta da Foz and Euroamerican Finance, S.A. in the amount of Euro 479 million, Euro 38 million, Euro 24 million, Euro 13 million and Euro 9 million, respectively, with reference to 31 December 2013.

NOTE 24 - DERIVATIVES

Following the introduction of the stock-option plan, ESFG contracted in 2008 an option to purchase own shares at Euro 13.2 for a period of 10 years in order to hedge the stock-option plan of the Company. The premium paid amounted to Euro 4,782,889 and was amortised over the vesting period of the plan, namely one year starting 1 October 2008. No option was exercised during 2013 and 2012.

The Company enters into forward currency contracts as part of its trading activities with affiliated undertakings as well as to hedge against foreign currency exposure on its own account. Forward currency contracts are contracts to purchase and sell foreign currencies at specific rates of exchange on specific dates in the future. Risk arises from the potential inability of counterparties to perform under the terms of the contracts (credit risk) and from fluctuations in the foreign exchange rates (market risk).

As at 31 December 2013, there was no open forward currency contract (2012: Nil).

NOTE 25 - STOCK OPTION PLAN

On 1 October 2008, the Company established a stock-option plan that entitles key management personnel to purchase ESFG shares. Under the program, the Company may grant options to its employees up to 3,000,000 ordinary shares. The exercise price of each option equals the market price of ESFG share on the date of grant and an option's maximum term is of 10 years. Options are granted at the discretion of the Board of Directors and have a vesting period of 1 year.

As at 31 December 2013, no option was exercised (2012: Nil)

The number and weighted average exercise prices of stock options are as follows:

	2013		2012	
	Weighted average exercise price Euro	Number of options	Weighted average exercise price Euro	Number of options
Outstanding at the beginning of the year	13.20	2,650,000	13.20	2,650,000
Exercised during the year		—		—
Outstanding at the end of the year	13.20	2,650,000	13.20	2,650,000
Exercisable at the end of the year	13.20	2,650,000	13.20	2,650,000

NOTE 26 – AUDIT FEES

The fees billed to the Company by KPMG Luxembourg S.à r.l and other member firms of the KPMG network ("KPMG") during the year are analysed as follows (excluding VAT):

	2013	2012
	Euro	Euro
Audit fees	349,565	261,115
Audit-related fees	159,000	423,040
	508,565	684,155

During 2013 and 2012, KPMG did not provide any advisory services to the Company.

NOTE 27 – TAXATION

The Company is subject to the general tax regulations applicable to Luxembourg commercial companies.

NOTE 28 – SUBSEQUENT EVENTS

- On 2 April 2014, ESFG sold its remaining 9% stake in Banco BEST to BES.
- On 18 March 2014, ESFG announced that it has sold a 10.63% stake in Espírito Santo Saúde, as part of the healthcare company's IPO, launched on 6 February 2014. The sale, which included the over-allotment option, leaves ESG with a 3.38% direct stake in the company
- On 14 February 2014, ESFG announced the sale of its 44.81% stake in BES Vénétie to BES.